

Message Text

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ACTION EB-06

INFO OCT-01 EUR-08 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 L-01 H-01 PA-01 USIA-06 PRS-01 FEA-01 /071 W

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R 011521Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5292

C O N F I D E N T I A L LONDON 14249

DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: BUSINESS ECONOMISTS SHORT-TERM FORECASTING ASSUM-
PTIONS FOR THE UK ECONOMY

SUMMARY: BUSINESS ECONOMISTS EXPECT MINIBUDGET WILL BE
LARGELY DIRECTED TOWARDS HELPING CORPORATE SECTOR. THEY
EXPECT LONG-TERM INTEREST RATES TO REMAIN HIGH, DOMESTIC
ECONOMIC ACTIVITY TO BE SLUGGISH, AND STERLING TO BE VERY
VULNERABLE TO A SUDDEN DETERIORATION IN INTERNATIONAL
CONFIDENCE. END SUMMARY

1. THE SOCIETY OF BUSINESS ECONOMISTS FORECASTING GROUP
(SBE) IS CURRENTLY PREPARING ITS NEW FORECAST OF UK ECON-
OMY IN 1975. IT CANNOT BE COMPLETED NOR PRECISE PENDING
CHANCELLOR HEALEY'S ANNOUNCEMENT OF HIS MINI-BUDGET ON
NOVEMBER 12. THE SHORT-TERM FORECASTERS GROUP, WHICH COM-
PRISES ECONOMISTS FROM 15 MULTINATIONAL, NATIONALIZED AND
FINANCIAL INSTITUTIONS INCLUDING LAZARD FRERES, AND NATI-
ONAL WESTMINSTER BANK, IS MAKING THE FOLLOWING
ASSUMPTIONS:

A) THE NOVEMBER MINIBUDGET WILL INVOLVE A MODEST DOSE
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OF REFLATION OF SOME 500 TO 800 MILLION POUNDS AND,

AS EXPECTED, IT WILL PROBABLY BE LARGELY DIRECTED TOWARDS HELPING THE CORPORATE SECTOR. THE EFFECT ON THE CONSUMER SECTOR COULD WELL BE SLIGHTLY DEFLATIONARY BECAUSE OF THE RELAXATION IN THE PRICE CODE AND THE PROBABLE RISES IN NATIONALIZED INDUSTRY PRICES. HOWEVER, ON BALANCE, THE NET EFFECT WILL PROBABLY BE MILDLY REFLATIONARY.

B) IT SEEMS UNLIKELY THAT THE GOVERNMENT WILL IMPOSE STATUTORY CONTROLS OVER INCOMES BEFORE THE SPRING OR MIDDLE OF 1975. AT THAT TIME, HOWEVER, IF THE SITUATION DETERIORATES, IT IS POSSIBLE TO ENVISAGE SOME FORM OF INDEX-LINKED FREEZE ON WAGES.

C) THE CONTINUATION OF A VERY LARGE FISCAL DEFICIT THROUGH 1975 WILL INEVITABLY INCREASE THE BURDEN IMPOSED ON MONETARY POLICY AND LONG-TERM INTEREST RATES WILL REMAIN HIGH. HOWEVER, SHORT-TERM RATES WILL PROBABLY FALL GRADUALLY OVER THE COMING YEAR IN LINE WITH THE STEADY DECLINE IN U.S. RATES AND THE SLUGGISHNESS IN DOMESTIC ECONOMIC ACTIVITY.

D) STERLING WILL CONTINUE TO REMAIN VERY VULNERABLE TO A SUDDEN DETERIORATION IN INTERNATIONAL CONFIDENCE HOWEVER, WITH LARGE INFLOWS OF OIL FUNDS EXPECTED TO CONTINUE, IT SEEMS PROBABLE THAT, ON BALANCE, STERLING'S EFFECTIVE RATE OF EXCHANGE WILL REMAIN ROUGHLY UNCHANGED OVER THE NEXT YEAR, PERHAPS FALLING BY A MODEST 1 TO 2 PERCENT.

2. COMMENT: PLEASE DO NOT CITE SBE VIEWS PUBLICLY; THEY ARE CONSIDERED CONFIDENTIAL BY MEMBERS INVOLVED. THE ASSUMPTIONS COULD BE SUBJECT TO CONSIDERABLE CHANGE DEPENDING ON THE ACTUAL CONTENT OF THE MINIBUDGET. HOWEVER, THEY ARE INTERESTING BECAUSE OF THEIR REFLECTION OF CURRENT VIEWS HELD BY UK INDUSTRY ON THE OUTLOOK FOR THE ECONOMY IN COMING MONTHS AND EXPECTATIONS OF POLICY TO BE TAKEN BY THE GOVERNMENT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: smithrj
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON14249
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740314-0138
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741179/aaaacpmi.tel
Line Count: 107
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: smithrj
Review Comment: n/a
Review Content Flags:
Review Date: 26 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 JUN 2002 by kelleyw0>; APPROVED <14 MAR 2003 by smithrj>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BUSINESS ECONOMISTS SHORT-TERM FORECASTING ASSUM- PTIONS FOR THE UK ECONOMY
TAGS: EFIN, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005